No. 83-547

IN THE

Supreme Court of the United States

October Term, 1983

OHIO-SEALY MATTRESS MFG. CO., ET AL.,

Petitioners,

v.

SEALY, INCORPORATED

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

BRIEF OF RESPONDENT IN OPPOSITION

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

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STATEMENT OF THE CASE

Petitioner seeks review of a decision of the court of appeals affirming an interlocutory order of the district court which (1) denied petitioner's motion to compel arbitration of certain issues on the ground that arbitration had been waived and (2) granted summary judgment in respondent's favor on respondent's counterclaim for unpaid royalties due under a license agreement.[1]

During the course of protracted antitrust litigation initiated by petitioner Ohio-Sealy against its licensor, respondent

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1. The pertinent rulings of the court of appeals are in Parts II and V of its opinion, pp. A4-7 and p. A10 of the Appendix to the petition. The pertinent rulings of the district court are in Part II of its opinion, at pp. A31-33 and pp. A37-39.

Sealy, Incorporated, petitioner refused to pay royalties due under its license contract. Ohio-Sealy asserted both antitrust and contract reasons for nonpayment. After Ohio-Sealy filed its second antitrust suit,[2] it repeatedly advised Sealy that it stood ready to "arbitrate or litigate" the royalty dispute, as Sealy might choose, and Sealy repeatedly advised Ohio-Sealy that Sealy would litigate. (Since Ohio-Sealy was asserting nonarbitrable antitrust defenses, Sealy could not have recovered its royalties through arbitration, even if it had won an arbitration on the contract issues.) Ohio-Sealy's second antitrust action (the present action) was stayed shortly after the filing of the complaint, because of the pendency of related issues in the first case. As soon as the stay was lifted, Sealy filed a counterclaim for the unpaid royalties. Ohio-Sealy answered, asserting (among other defenses) that Sealy had breached the arbitration clause, but did not move either for a stay or for an order compelling arbitration.

Two and a half years later, after extensive discovery on all aspects of the case and other lengthy and contested pretrial proceedings, Ohio-Sealy moved for summary judgment in its favor on the counterclaim. In the same motion it prayed "in the alternative" for a stay and an order compelling arbitration in the event the court did not rule in its favor on the merits of the counterclaim. This alternative motion was Ohio-Sealy's first attempt to invoke the Federal Arbitration Act.

Sealy filed a counter motion for summary judgment in its favor. The merits of the counterclaim were extensively briefed. Thereafter the district court ruled that Ohio-Sealy had waived its right to arbitration and decided on the merits that Sealy was entitled to summary judgment for the unpaid royalties. 545 F. Supp. 765, 778-83 (N.D. Ill. 1982). On an

2. It subsequently filed two more. All four are still pending at various stages in the lower courts.

interlocutory appeal from that order, the Court of Appeals affirmed. 712 F.2d 270, 272-75 (7th Cir. 1983).[3]

REASONS FOR DENYING THE WRIT

I. The Decision Below, Finding a Waiver of Arbitration on the Facts Presented Here, Is Consistent with the Settled Course of Decisions in the Lower Courts and There Is No Conflict Among the Circuits.

Innumerable lower court decisions have held that a right to arbitration may be waived by submitting claims to judicial determination in circumstances resulting in prejudice to the opposing party, and that such a waiver constitutes a "default" under the Federal Arbitration Act that is for the court, not an arbitration panel, to decide. *Midwest Window Systems, Inc.* v. *Amcor Industries, Inc.*, 630 F.2d 535, 536-37 (7th Cir. 1980); *Galion Iron Works & Mfg. Co.* v. *J.D. Adams Mfg. Co.*, 128 F.2d 411, 413-14 (7th Cir. 1942); *Reid Burton Const., Inc.* v. *Carpenters District Council*, 614 F.2d 698, 702-703 (10th Cir. 1980); *Commercial Iron & Metal Co.* v. *Bache Halsey Stuart, Inc.*, 581 F.2d 246, 249 (10th Cir. 1978); *E.C. Ernst, Inc.* v. *Manhattan Const. Co.*, 551 F.2d 1026, 1039-41 (5th Cir. 1977), *aff'd in pertinent part*, 559 F.2d 268 (5th Cir. 1977); *Burton-Dixie Corp.* v. *Timothy McCarthy Const. Co., Inc.*, 436 F.2d 405, 407-409 (5th Cir. 1971); *La Nacional Platanera, S.C.L.* v. *North American Fruit & Steamship Corp.*, 84 F.2d 881, 882-83 (5th Cir. 1936); *Gutor Int'l AG* v. *Raymond Packer Co., Inc.*, 493 F.2d 938, 945 (1st Cir. 1974); *Demsey & Associates, Inc.* v. *S.S. Sea Star*, 461 F.2d 1009, 1017-18 (2d Cir. 1972); *Cornell & Co., Inc.* v. *Barber & Ross Co.*, 360 F.2d 512, 513 (D.C. Cir. 1966); *American Locomotive Co.* v. *Gyro Process Co.*, 185 F.2d 316, 318-20 (6th Cir. 1950); *Radiator Specialty Co.* v. *Cannon Mills, Inc.*, 97 F.2d 318, 319 (4th Cir. 1938); *Ging* v. *Parker-Hunter, Inc.*,

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3. Since the court of appeals' decision, the district court has entered final judgment on the remainder of the case and Ohio-Sealy's appeal from that judgment is now pending in the court of appeals.

544 F. Supp. 49, 54-55 (W.D. Pa. 1982); *Liggett & Myers, Inc.* v. *Bloomfield*, 380 F. Supp. 1044, 1047-48 (S.D.N.Y. 1974); *Graig Shipping Co., Ltd.* v. *Midland Overseas Shipping Corp.*, 259 F. Supp. 929, 931 (S.D.N.Y. 1966) *Cargo Carriers, Inc.* v. *Erie & St. Lawrence Corp.*, 105 F. Supp. 638, 639 (W.D.N.Y. 1952). *See also In Re Mercury Const. Corp.*, 656 F.2d 933, 939-40 (4th Cir. 1981), *aff'd sub nom., Moses H. Cone Memorial Hosp. v. Mercury Const. Corp.*, 103 S. Ct. 927 (1983); *ATSA of California, Inc.* v. *Continental Insurance Co.*, 702 F.2d 172, 175 (9th Cir. 1983); *Martin Marietta Aluminum, Inc.* v. *General Electric Co.*, 586 F.2d 143, 146 (9th Cir. 1978); *Shinto Shipping Co., Ltd.* v. *Fibrex & Shipping Co., Inc.*, 572 F.2d 1328, 1330 (9th Cir. 1978); *Erving* v. *Virginia Squires Basketball Club*, 468 F.2d 1064, 1068 (2d Cir. 1972); *Carcich* v. *Rederi A/B Nordie*, 389 F.2d 692, 696 (2d Cir. 1968); *Chatham Shipping Co.* v. *Fertex Steamship Corp.*, 352 F.2d 291, 293-294 (2d Cir. 1965); *Robert Lawrence Co., Inc.* v. *Devonshire Fabrics, Inc.*, 271 F.2d 402, 412-13 (2d Cir. 1959); *Almacenes Fernandez, S.A.* v. *Golodetz*, 148 F.2d 625, 627-628 (2d Cir. 1945); *Kulukundis Shipping Co., S/A*, v. *Amtorg Trading Corp.*, 126 F.2d 978, 989 (2d Cir. 1942); *Shanferoke Coal & Supply Corp.* v. *Westchester Service Corp*, 70 F.2d 297, 299 (2d Cir. 1934), *aff'd*, 293 U.S. 449 (1935); *N & D Fashions, Inc.* v. *DHJ Industries, Inc.*, 548 F.2d 722, 728 (8th Cir. 1976); *Gavlik Const. Co.* v. *H.F. Campbell Co., 526 F.2d 777, 783-784 (3d Cir. 1975); Dickinson* v. *Heinold Securities, Inc.*, 661 F.2d 638, 641 (7th Cir. 1981); *Howard Hill, Inc.* v. *George A. Fuller Co., Inc.*, 473 F.2d 217, 218 (5th Cir. 1973); *General Guaranty Insurance Co.* v. *New Orleans General Agency, Inc.*, 427 F.2d 924, 928 n.4 (5th Cir. 1970); *American Locomotive Co.* v. *Chemical Research Corp.*, 171 F.2d 115, 121 (6th Cir. 1948).

Both courts below recognized and applied the principle of the foregoing cases.

The district court stated:

> Waiver will be found where the party seeking to invoke the right to arbitration has taken some action

> inconsistent with the exercise of that right and the party opposing arbitration has been prejudiced by that inconsistency....
>
> In the context of the instant case, Ohio-Sealy has clearly waived its right to insist upon arbitration of the royalty dispute. For almost five years Ohio-Sealy has consistently articulated its position that it stood ready to resolve the royalty dispute by litigation or arbitration, whichever route Sealy should choose.... To that end, Sealy has continually attempted to have its royalty claim heard in court with motions before three different judges in the context of both this and the 1971 case without objection from plaintiffs as to the appropriate forum. During this time, both parties have engaged in extensive discovery, document production and analysis, and briefing regarding the merits of the royalty dispute. Ohio-Sealy's first objection to the resolution of this dispute by litigation rather than arbitration came during the briefing of the instant motion for summary judgment. (A32-33; 545 F. Supp. at 778-79.)

The court of appeals stated:

> Prejudice and delay are significant factors the court must consider in applying the default provision of section 3 of the Federal Arbitration Act, 9 U.S.C. §3. *In re Mercury Construction Corp.*, 656 F.2d 933 (4th Cir. 1981), *aff'd sub nom., Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 103 S. Ct. 927 (1983); *Midwest Window Systems, Inc. v. Amcor Industries, Inc.*, 630 F.2d 535 (7th Cir. 1980).
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> * * *
>
> Ohio-Sealy asserts that the trial court's failure to consider the issue of prejudice automatically mandates reversal.... It is difficult to understand how Ohio-Sealy can make this assertion, for the trial

> judge specifically stated that "[w]aiver will be found where the party seeking to invoke the right to arbitration has taken some action inconsistent with the exercise of that right and the party opposing arbitration has been prejudiced by that inconsistency." . . .
>
> Similarly, it is difficult to understand how Ohio-Sealy can contend that Sealy would not have been prejudiced if Ohio-Sealy were permitted to insist on its right to arbitration after Sealy had embarked on protracted litigation. As the trial judge noted, Sealy expended considerable time and money on extensive discovery, document production and briefing on the merits of the royalty dispute. Moreover, forcing Sealy to abandon the litigation in favor of arbitration would have delayed Sealy's receipt of the unpaid, long overdue royalties. (A4-6; 712 F.2d at 272, 273.)

It would be difficult to imagine a stronger case for finding default on the ground of invoking litigation to the prejudice of the opposing party. Petitioner not only *invited* litigation rather than arbitration but, after intense protracted litigation, *requested* adjudication in its favor and urged arbitration only as an alternative in the event the court rejected its claim on the merits. The Federal Arbitration Act does not guarantee a party two remedies, one in court and, if unsuccessful, a second in arbitration.

The conflict asserted in petitioner's first Question Presented is nonexistent. The two Second Circuit decisions cited by petitioner involved only the application of the recognized principle to the particular facts of those cases. In both cases the court ruled that there was no waiver in the default sense merely from delay in moving for a stay after answering a complaint, where no prejudice to the opposing party resulted from the delay. *Carcich* v. *Rederi A/B Nordie, supra; Almacenes Fernandez, S.A.* v. *Golodetz, supra.* In neither case did the court hold or suggest that the question of default was one to be decided by an arbitrator rather than by the

court, and both recognized that if prejudice were properly found, a district court could deny arbitration. *See Carcich* v. *Rederi A/B Nordie, supra,* 389 F.2d at 696; *Almacenes Fernandez, S.A.* v. *Golodetz, supra,* 148 F.2d at 628. Other cases in the Second Circuit have applied the principle and found default or waiver where a party's participation in litigation resulted in prejudice to the opposing party. *Demsey & Associates, Inc.* v. *S.S. Sea Star, supra,* 461 F.2d at 1017-18; *Weight Watchers of Quebec, Ltd.* v. *Weight Watchers Int'l., Inc.,* 398 F. Supp. 1057, 1960-61 (E.D.N.Y. 1975); *Liggett & Myers, Inc.* v. *Bloomfield, supra,* 380 F.Supp. at 1047-48 *Cargo Carriers, Inc.* v. *Erie & St. Lawrence Corp., supra,* 105 F. Supp. at 639.

The decision below is not inconsistent with this Court's decision in *Moses H. Cone Memorial Hospital* v. *Mercury Construction Corp.,* 103 S. Ct. 927 (1983). Petitioner relies on the general observation made in the opinion that "doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract itself or an allegation of waiver, delay, or a like defense to arbitrability." The dictum is entirely consistent with the case law relied on by the courts below, which recognizes that "waiver" in the broad sense (such as laches) is ordinarily for the arbitrator to decide, whereas participation in litigation to the prejudice of the opposing party is "waiver" in a sense constituting default within the meaning of the Arbitration Act and is for the court to decide. The distinction was articulated in the court of appeals' decision in the *Cone Hospital* case itself, which this Court affirmed (see 656 F.2d at 939-40), and has been recognized in the numerous decisions in the lower courts cited above.

The principle of waiver applied by the decision below does not conflict with the decisions of any other Circuit or any decision of this Court, and presents no question calling for review by this Court.

II. The Case Does Not Present the Second Question Tendered For Review.

Contrary to petitioner's assertion, there is not the slightest basis for contending that the decision below created any "antitrust rule of 'per se legality.'" (Pet. 6.) The district court's summary judgment on the trademark-misuse issue was based on collateral estoppel and was clearly correct. A37-39; 545 F. Supp. 781-782.

In a prior case between the same parties involving substantially identical royalty provisions, in which Ohio-Sealy advanced the same trademark-misuse arguments, the court of appeals ruled that the royalty provision did not violate the rule of *Zenith Radio Corporation* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), because Sealy had not conditioned its grant of a trademark license on the payment of royalties on non-Sealy products, and also because services were provided in exchange for the royalties charged. *Ohio-Sealy Mattress Mfg. Co.* v. *Sealy, Inc.*, 585 F.2d 821, 838-39 (7th Cir. 1978). In the present case the district court stated that petitioner had offered no evidence to differentiate the subsequent renewal or extension of the license agreement from the facts adjudicated in the prior case, and also correctly held that undisputed evidence showed that petitioner received services for the royalties in question. The court's conclusion that summary judgment was compelled by collateral estoppel necessarily followed. No question of antitrust law was decided.

The court of appeals found petitioner's arguments so lacking in merit as not to require discussion, and affirmed on the basis of the district court's opinion.

No issue of fact requiring an evidentiary hearing was raised by petitioner in the district court, despite petitioner's contrary assertion here (Pet. 7), and summary judgment was plainly proper.

CONCLUSION

The writ of certiorari should be denied.

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STATEMENT IN COMPLIANCE WITH RULES 22.2 AND 28.1

Respondent Sealy, Incorporated has no parent companies, affiliates or subsidiaries other than wholly-owned subsidiaries.